

**STATE OF INDIANA
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL AND GAS**

ORDER OF INTEGRATION

Re: Application of Pioneer Oil Company, Inc.) Case No.: DOG-7-2009
For the integration of oil and gas interests owned now)
or formerly by Henry D. Hargrove III, Luke A. Klotz,)
Kazumi I. Blackburn, Sandra B. Jenson, Edward I.
Blackburn, William E. Klotz or his unknown
successors, Delia Klotz Davis or her unknown
successors, and Helen L. Blackburn Shobe successors,
said interests located in the East Half of the Southwest
Quarter of Section 7, Township 8 South, Range 13
West, Posey County, Indiana

As provided in Indiana Code 14-37-3-16, an informal hearing was held in this matter on December 17, 2009, beginning at 11:00 AM (Eastern), before the Indiana Department of Natural Resources (IDNR), Division of Oil and Gas (Division), at the Indianapolis Office of the Division of Oil and Gas located at 402 West Washington Street, Room W293, Indianapolis, IN 46204. The purpose of the informal hearing was to consider the Petition for Integration of Interests (Application) for the above production unit filed by Pioneer Oil Company, Inc., hereinafter referred to as "Applicant".

The Application was filed by the Applicant in order that the interest of the following are incorporated into the Klotz Heirs Drilling Unit:

1. Henry D. Hargrove III, 15702 Cavendish, Houston, TX 77059
2. Luke A. Klotz, 3996 Englewood Street, Jackson, MI 49201
3. Kazumi I. Blackburn, 2434 Badajoz Pl., Carlsbad, CA 92009
4. Sandra B. Jenson, 2434 Badajoz Pl., Carlsbad, CA 92009
5. Edward I. Blackburn, 2434 Badajoz Pl., Carlsbad, CA 92009
6. William E. Klotz or his unknown successors, last known address: League, TX
7. Delia Klotz Davis or her unknown successors, last known address: Jackson MI
8. Helen L. Blackburn Shobe successors, deceased June 23, 2000, last known address: Las Cruces, NM

Collectively, these interests are referred to as the Separately Owned Interests. The interests believed to be owned by the above persons are an undivided interest in 35/120ths of the oil and gas within the 80 acre parcel. The remaining interests in the oil and gas on this parcel have been acquired by the Applicant.

Despite repeated attempts by Applicant to contact and secure agreement from the above owners, their interests were unable to be secured.

Having reviewed the entire record in this matter, and being duly advised, the Director of the Division of Oil and Gas (Director) makes the following Findings of Fact, Conclusions of Law and Order of Integration:

FINDINGS OF FACT

1. Applicant is a corporation whose principal place of business is Rural Route 4, Box 142B, Lawrenceville, IL 62439. Applicant is authorized to transact business in the State of Indiana.
2. The Applicant represents that it owns valid and operative oil and gas leases covering an undivided 85/120ths (70.833%) of the oil, gas and associated hydrocarbons underlying the leased parcels located in the East Half of the Southwest Quarter of Section 7, Township 8 South, Range 13 West, Posey County, Indiana, containing 80 acres, more or less, known as the Klotz Heirs Drilling Unit.
3. Landowners in the general vicinity of the Klotz Heirs Drilling Unit were granted a royalty rate of one-eighth (1/8th) and a primary term of 2 years.
4. The Applicant represents that oil, gas and other hydrocarbons are reasonably believed to underlie the Klotz Heirs Drilling Unit and that they can be economically produced by drilling and operating wells thereon.
5. The Applicant intends to acquire production permits for the drilling of wells on the Klotz Heirs Drilling Unit area.
6. The Separately Owned Interests are comprised of an undivided 35/120ths severed interest in and to the oil, gas and other hydrocarbons in the Klotz Heirs Drilling Unit.
7. The Separately Owned Interests are situated so as to constitute an integral and necessary part of the development of the Klotz Heirs Drilling Unit as specified under IC 14-37-9-1.
8. The Applicant now desires to exercise its rights granted under the Operative Leases to explore for oil, gas and other hydrocarbons thereunder and is prevented from doing so lawfully by the existence of the Separately Owned Interests.
9. The Applicant is prepared to pay all costs associated with the drilling and abandonment of the well or wells in the event the same are found to be dry holes.
10. The Applicant has repeatedly contacted certain locatable owners of the Separately Owned Interests and has diligently attempted to obtain an Oil and Gas Lease to cover said interest or to obtain the consent of the owners to voluntarily integrate their interests with the leased parcels in the Klotz Heirs Drilling Unit. Said owners are identified as:
 - a. Henry D. Hargrove III, 15702 Cavendish, Houston, TX 77059
 - b. Luke A. Klotz, 3996 Englewood Street, Jackson, MI 49201
 - c. Kazumi I. Blackburn, 2434 Badajoz Pl., Carlsbad, CA 92009
 - d. Sandra B. Jenson, 2434 Badajoz Pl., Carlsbad, CA 92009
 - e. Edward I. Blackburn, 2434 Badajoz Pl., Carlsbad, CA 92009
11. The Applicant has been unsuccessful in locating or contacting the following owners of record:
 - a. William E. Klotz or his unknown successors, last known address: League, TX
 - b. Delia Klotz Davis or her unknown successors, last known address: Jackson MI
 - c. Helen L. Blackburn Shobe successors, deceased June 23, 2000, last known address: Las Cruces, NM
12. Despite due diligence and good faith efforts, the Applicant was not able to obtain consent from any of the Separately Owned Interest owners.
13. IC 14-37-9-1(b) requires that, where owners of separate tracts within a drilling unit do not agree to integrate their interests, the IDNR shall require the owners to integrate their interests in order to

- prevent waste or the drilling of unnecessary wells and to develop the land as a drilling unit.
14. IC 14-37-9-2 requires that an order for integration must be based upon reasonable terms that give the owner of each tract an equitable share of oil and natural gas in the unit or pool.
15. The Petition filed in this matter by the Applicant seeks, pursuant to IC 14-37-9, the issuance of an integration order whereby the interests of all owners of separate tracts within the proposed Klotz Heirs Drilling Unit are integrated and the combined leases developed as a consolidated production unit.
16. The Applicant attached the following documents to its Application:
- | | |
|-----------|---|
| Exhibit A | Legal Description of Separately Owned Interests |
| Exhibit B | Oil and Gas Lease Form Utilized in Project Area |
| Exhibit C | Division of Ownership Interest Spreadsheet |
| Exhibit D | Contact Report Summarizing Lease Attempts |
17. On November 16, 2009, the Division sent to each of the locatable owners described in Paragraph 10 above, by first class mail as provided in 312 IAC 16-2-3, a written notice of the date, time, and place of the informal hearing scheduled to be held in Indianapolis, IN on December 17, 2009.
18. On November 25, 2009, at the request of the Division, the Mount Vernon Democrat, a newspaper of local circulation in Posey County, Indiana, published a legal notice informing interested persons of the date, time, and location of the informal hearing scheduled to be held in Indianapolis, IN on December 17, 2009. The notice also requested that persons with any information that would assist in locating any of the unlocatable owners described in Paragraph 11 above, contact the Division no later than 12:00 noon, Thursday, December 17, 2009.
19. The following persons were present at the informal hearing held at 11:00 AM (Eastern) in the Indianapolis Office of the Division of Oil and Gas located at 402 West Washington Street, Room W293, Indianapolis, IN 46204, on December 17, 2009:
- | | |
|-------------------|---------------------|
| <u>Person</u> | <u>Representing</u> |
| Herschel McDivitt | IDNR |
20. Informal hearings conducted according to IC 14-37-3-16 and 312 IAC 16-2-3 are solely for the expressed purpose of gathering sufficient information to assist the department with the administration of the oil and gas program. Informal hearings shall be conducted in a manner that will facilitate public participation and are not governed by the rules of evidence or discovery.
21. No comments were received at the informal hearing, nor were there any comments submitted to the Division with respect to this matter by December 17, 2009.
22. Based upon a review of all relevant information made available to the division in this matter, an Order of Integration should be made in order to allow the Applicant to proceed with the drilling of wells within the Klotz Heirs Drilling Unit.


CONCLUSIONS OF LAW AND ORDER OF INTEGRATION

1. IC 14-37-9 and any rules promulgated thereunder apply and are pertinent to the subject matter of

the Application filed herein.

2. There has been full compliance with all notice requirements provided by law, and all interested parties have been afforded an opportunity to be heard.
3. The IDNR and the Division have jurisdiction to hear this matter and authority, as delegated by the Natural Resources Commission, to order the integration of interests in accordance with IC 14-37-9-1(b)
4. The Petition, herein referenced, contains the elements required by law.
5. All leaseholds and Separately Owned Interests comprising the proposed KLOTZ HEIRS DRILLING UNIT located in the East Half of the Southwest Quarter of Section 7, Township 8 South, Range 13 West, Posey County, Indiana, comprising 80 acres, more or less, are ordered to be integrated as a single production unit. It is reasonable, fair, and equitable, as required by IC 14-37-9-2, that proceeds from the production of crude oil from this unit shall be allocated to the owners according to the Division of Ownership Interests contained in REVISED EXHIBIT C of the Application. Unit operations may be conducted as if the unit areas had been included in single leases executed by all owners of oil and gas interests within said unit.
6. As provided in IC 14-37-9-2, the portion of the production allocated to the owner of any tract within the KLOTZ HEIRS DRILLING UNIT shall be considered as if produced from a well drilled on that tract.
7. This order is a final administrative action of the IDNR and, as such, is subject to administrative review under IC 4-21.5-3-7 and may be placed of record by the Applicant in the appropriate public record of Posey County, Indiana.

January 28, 2010
Dated



Herschel L. McDivitt, Director
Division of Oil and Gas

**DIVISION OF OIL AND GAS
DEPARTMENT OF NATURAL RESOURCES**

**NOTICE OF ORDER OF INTEGRATION
NOTICE OF RIGHT TO APPEAL
CERTIFICATE OF MAILING**

You are hereby notified that on the date indicated below, the Indiana Department of Natural Resources, through the Director of the Division of Oil and Gas, issued an Order of Integration with respect to certain oil and gas drilling interests. The Order of Integration is based on a Petition for the Integration of Interests filed by the Applicant, Pioneer Oil Company, Inc. and on an Informal Hearing held in this matter on December 17, 2009, in Indianapolis, Indiana, to consider the request for integration. A copy of the Order of Integration issued on the date indicated below is enclosed.

The terms of the enclosed Order of Integration are subject to appeal and review under IC 4-21.5-3-7 in a hearing before an Administrative Law Judge. In order to qualify for administrative review, a person must petition for review in writing stating facts that demonstrate the petitioner is:

- (A) a person to whom the order is specifically directed;
- (B) aggrieved or adversely affected by the order; or
- (C) entitled to review under any law.


In order to be timely, any petition for administrative review must be filed with the Division of Hearings, Natural Resources Commission, Indiana Government Center South, 402 W. Washington St., Rm. W272, Indianapolis, IN 46204 within eighteen (18) days after the mailing date of this notice. If no petition for administrative review is filed within the stated time limit, all terms and conditions contained in the enclosed Order of Integration will become final and binding.

I certify that a copy of the referenced Order of Integration was mailed on the date indicated below to the following:

1. The Applicant, Pioneer Oil Company, Inc., Rural Route 4, Box 142B, Lawrenceville, IL 62439.
2. Stephen T. Link, Counsel for the Applicant, 1033 Mt. Pleasant Road, Suite H, Evansville, IN 47725
3. Henry D. Hargrove III, 15702 Cavendish, Houston, TX 77059
4. Luke A. Klotz, 3996 Englewood Street, Jackson, MI 49201
5. Kazumi I. Blackburn, 2434 Badajoz Pl., Carlsbad, CA 92009
6. Sandra B. Jenson, 2434 Badajoz Pl., Carlsbad, CA 92009
7. Edward I. Blackburn, 2434 Badajoz Pl., Carlsbad, CA 92009

I further certify that notice of this final Order of Integration was sent to the Mount Vernon Democrat, Mt. Vernon, IN 47620, notifying interested persons where to review a copy of this final Order of Integration and the right of any interested person to submit a petition for administrative review.

January 28, 2010
Dated



Herschel L. McDivitt, Director
Division of Oil and Gas